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VENTAS INC
Form DEF 14A
March 26, 2002

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant [X]

Filed by a Party other than the Registrant []

Check the appropriate box:

[] Preliminary Proxy Statement

[] Confidential, for Use of Commission Only (as permitted by Rule 14a-6(e)(2))

[X] Definitive Proxy Statement

[] Definitive Additional Materials

[] Soliciting Material Pursuant to (ss.)240.14a-12

VENTAS, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) filing Proxy Statement, if other than Registrant)

Payment of Filing Fee (Check the appropriate box):

[X] No fee required.

[] Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

[] Fee paid previously with preliminary materials.

[] Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

(4) Date Filed:

[LOGO] Ventas

4360 Brownsboro Road
Suite 115
Louisville, Kentucky 40207-1642
(502) 357-9000

April 3, 2002

Dear Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders to be held at 10:00 a.m., local time on Tuesday, May 14, 2002, at The Olmsted, 3701 Frankfort Avenue, Louisville, Kentucky.

The Board of Directors appreciates your interest in the Company. Regardless of whether you plan to attend the meeting, it is important that your shares are represented. Please sign, date and mail the enclosed proxy in the envelope provided at your earliest convenience.

Sincerely,
/s/ W. BRUCE LUNSFORD
W. Bruce Lunsford
Chairman of the Board

[LOGO] Ventas

4360 Brownsboro Road
Suite 115
Louisville, Kentucky 40207-1642
(502) 357-9000

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To the Stockholders of Ventas, Inc.:

The Annual Meeting of Stockholders (the "Annual Meeting") of Ventas, Inc. (the "Company") will be held at 10:00 a.m., local time on Tuesday, May 14, 2002, at The Olmsted, 3701 Frankfort Avenue, Louisville, Kentucky, to consider and vote on:

1. The election of directors for the ensuing year;
2. The ratification of the selection of Ernst & Young LLP as the independent auditors for fiscal year 2002; and
3. Such other business as may properly come before the Annual Meeting or any adjournments thereof.

The close of business on March 20, 2002, has been fixed as the record date

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for determination of stockholders entitled to notice of, and to vote at, the Annual Meeting or any adjournments thereof. A list of all stockholders entitled to vote at the Annual Meeting will be available for inspection by any stockholder for any purpose reasonably related to the Annual Meeting during ordinary business hours for a period of ten days prior to the Annual Meeting at the Company's principal executive offices located at 4360 Brownsboro Road, Suite 115, Louisville, Kentucky. Your attention is directed to the proxy statement accompanying this notice.

You are cordially invited to attend the Annual Meeting in person. EVEN IF YOU PLAN TO ATTEND IN PERSON, YOU ARE REQUESTED TO SIGN, DATE AND RETURN THE ENCLOSED PROXY AT YOUR EARLIEST CONVENIENCE. This will not prevent you from voting your shares in person if you choose to attend the Annual Meeting.

By Order of the Board of Directors,
/s/ T. RICHARD RINEY
T. Richard Riney
Executive Vice President, General
Counsel and Corporate Secretary

Louisville, Kentucky
April 3, 2002

VENTAS, INC.

4360 Brownsboro Road
Suite 115
Louisville, Kentucky 40207-1642
(502) 357-9000

PROXY STATEMENT
for
ANNUAL MEETING OF STOCKHOLDERS
May 14, 2002

GENERAL INFORMATION

The Annual Meeting of Stockholders (the "Annual Meeting") of Ventas, Inc. (the "Company") will be held at 10:00 a.m., local time on Tuesday, May 14, 2002, at The Olmsted, 3701 Frankfort Avenue, Louisville, Kentucky. This Proxy Statement is being furnished in connection with the solicitation of proxies by the Board of Directors of the Company (the "Board of Directors" or the "Board") to be used at the Annual Meeting and at any adjournments thereof.

Only stockholders of record at the close of business on March 20, 2002, are entitled to vote at the Annual Meeting or any adjournments thereof. On the record date, 69,062,484 shares of the Company's common stock, par value \$.25 per share ("Common Stock"), were outstanding. Each share of Common Stock entitles the owner to one vote. However, certain shares designated as "Excess Shares" pursuant to the Company's Certificate of Incorporation (which are generally any shares owned in excess of 9% of the Company's outstanding Common Stock) may not be voted by the record owner thereof, but will instead be voted in accordance with Article XII of the Certificate of Incorporation.

A majority of the outstanding shares of Common Stock present in person or by proxy is required to constitute a quorum to transact business at the Annual

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Meeting. The vote of a plurality of the outstanding shares of Common Stock present in person or by proxy will be necessary to elect the director-nominees listed in this Proxy Statement. The affirmative vote of a majority of the shares of Common Stock present in person or by proxy will be necessary to approve all other proposals and matters that may come before the Annual Meeting for stockholder consideration. Abstentions and proxies relating to "street name" shares for which brokers have not received voting instruction from the beneficial owner ("Broker Non-Votes") are counted in determining whether a quorum is present. In the election of directors, the nominees receiving the highest number of votes will be elected. Therefore, abstentions or Broker Non-Votes for a director-nominee will have no effect. With respect to any matters submitted to the stockholders for their consideration, other than the election of directors, abstentions will have the same effect as votes against any such proposal, whereas Broker Non-Votes will have no effect in determining whether any such proposal has been approved by the stockholders.

The Company intends to first distribute this Proxy Statement and the materials accompanying it on or about April 3, 2002. If the enclosed proxy card is properly signed, returned to the Company and not revoked, it will be voted in accordance with the instructions contained therein. Unless contrary instructions are given, the proxy will be voted (i) in favor of the nominees for director named in this Proxy Statement, (ii) in favor of the ratification of the selection of Ernst & Young LLP as the Company's independent auditors for the fiscal year 2002, and (iii) in the discretion of the proxy holders on such other business as may properly come before the Annual Meeting.

A person giving the enclosed proxy has the power to revoke it at any time before it is exercised. However, such revocation must be made in writing and received by the General Counsel of the Company at the Company's principal executive offices located at 4360 Brownsboro Road, Suite 115, Louisville, Kentucky 40207-1642 at or before the time and date of the Annual Meeting. A stockholder may also attend the Annual Meeting and vote in person, in which event any prior proxy given by the stockholder will be revoked automatically.

The cost of soliciting proxies by the Board of Directors will be borne by the Company. Such solicitation will be made by mail and in addition may be made personally or by telephone by directors, officers and employees of the Company, none of whom will receive additional compensation for these services. The Company's regularly retained investor relations firm, Corporate Communications, Inc., may also solicit proxies by telephone and mail and, if it is so engaged, it will be paid a customary fee. Forms of proxies and proxy materials will also be distributed through brokers, custodians and other like parties to the beneficial owners of Common Stock. The Company will reimburse such parties for their reasonable out-of-pocket expenses incurred in connection with the distribution.

PROPOSAL 1:

ELECTION OF DIRECTORS

The Board of Directors currently consists of eight positions. The Board of Directors has nominated the seven persons listed below to be elected as directors at the Annual Meeting. Mr. Walter F. Beran, age 75, a current director of the Company, will not stand for reelection as a director. Each director elected at the Annual Meeting will serve, subject to the provisions of the Company's bylaws, until his or her successor is duly elected and qualified. The names of the nominees proposed for election as directors, all of whom are presently directors of the Company, together with certain information concerning the nominees, are set forth below:

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Nominees for directors

DEBRA A. CAFARO (age 44) joined the Company as Chief Executive Officer and President on March 5, 1999. From April 1997 to May 1998, she served as President and Director of Ambassador Apartments, Inc. (NYSE: AAH), a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Code"). Ms. Cafaro was a founding member of the Chicago law firm Barack Ferrazzano Kirschbaum Perlman & Nagelberg, becoming a partner in 1987, where her areas of concentration were real estate, finance and corporate transactions. From 1988 to 1992 Ms. Cafaro served as an Adjunct Professor of Law at Northwestern University Law School. Ms. Cafaro is admitted to the Bar in Illinois and Pennsylvania. She is a member of the Board of Governors of National Association of Real Estate Investment Trusts ("NAREIT"), the Visiting Committee of the University of Chicago Law School and a Chapter Director of the National Association of Corporate Directors. / (1) /

DOUGLAS CROCKER, II (age 61) has been a director of the Company since September 1998. Mr. Crocker has been a Trustee, Chief Executive Officer and President of Equity Residential Properties Trust (NYSE: EQR), the nation's largest apartment real estate investment trust ("EQR"), since March 1993. Mr. Crocker has been President and Chief Executive Officer of First Capital Corporation, previously a sponsor of public limited real estate partnerships, since December 1992 and a director of First Capital Corporation since January 1993. Mr. Crocker also served as Executive Vice President of Equity Financial and Management Company, a subsidiary of Equity Group Investments, Inc. ("EGI"), which provides strategic direction and services for EGI's real estate and corporate activities, from November 1992 until March 1997. Mr. Crocker is also a director of Wellsford Real Properties, Inc. (AMEX: WRP), a real estate merchant banking firm. / (1) (2) (3) /

RONALD G. GEARY (age 54), an attorney and certified public accountant, has served as a director of the Company since May 1, 1998. Mr. Geary has served as a director and President of Res-Care, Inc. (NASDAQ: RSCR) ("Res-Care"), a provider of residential training and support services for persons with developmental disabilities and certain vocational training services, since February 1990 and as Chief Executive Officer of Res-Care since 1993. Since June 1998, Mr. Geary also has served as Chairman of the Board of Res-Care. Prior to becoming Chief Executive Officer, Mr. Geary was Chief Operating Officer of Res-Care from 1990 to 1993. Mr. Geary is also a director of Alterra Healthcare Corporation (AMEX: ALI), a national assisted living company operating assisted living residences and providing assisted living services. / (3) (4) (5) /

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JAY M. GELLERT (age 47) joined the Company as a director on September 10, 2001. Since 1998, Mr. Gellert has been President and Chief Executive Officer of Health Net, Inc. (formerly known as Foundation Health Systems, Inc.) (NYSE: HNT) ("Health Net"), an integrated managed care organization which administers the delivery of managed healthcare services. Previously, Mr. Gellert was President and Chief Operating Officer of Health Net from May 1997 until August 1998 and from April 1997 to May 1997, Mr. Gellert served as Executive Vice President and Chief Operating Officer of Health Net. From June 1996 to March 1997, Mr. Gellert served as President and Chief Operating Officer of Health Net, then operating as Health Systems International, Inc. ("HSI"), a health maintenance organization. He served on the Board of Directors of HSI from June 1996 to April 1997. Prior to joining HSI, Mr. Gellert directed strategic advisory engagements for Shattuck Hammond Partners. Mr. Gellert serves on the boards of the American Association of Health Plans, MedUnite, Inc. and Miavita, Inc. / (4) /

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GARY W. LOVEMAN (age 41), has been a director of the Company since September 10, 2001. Mr. Loveman has been President of Harrah's Entertainment Inc. (NYSE: HET) ("Harrah's"), a casino entertainment company, since April 23, 2001, a director since February 2001 and Chief Operating Officer of Harrah's since May 1998. Mr. Loveman was a Professor of Business Administration at Harvard Graduate School of Business Administration from May 1989 to 1998, where his responsibilities included teaching and research in the field of service management and advising large service companies. Mr. Loveman is also a director of Coach, Inc. (NYSE: COH), a marketer of modern classic American accessories. / (2) /

W. BRUCE LUNSFORD (age 54), a founder of the Company, certified public accountant and attorney, has served as Chairman of the Board since the Company commenced operations on May 1, 1998. From May 1, 1998 through December 1998, he also served as President and Chief Executive Officer of the Company. Mr. Lunsford was a founder of Vencor, Inc. and served as Chairman of the Board, Chief Executive Officer and President of Vencor, Inc. from the time it commenced operations in 1985 until May 1, 1998, the date that the Company effected a corporate reorganization pursuant to which the Company changed its name to Ventas, Inc. and spun off a new publicly-held corporation (the "1998 Spin Off"). Mr. Lunsford served as Chairman of the Board and Chief Executive Officer of the new corporation, Vencor, Inc. (now known as Kindred Healthcare, Inc. (NASDAQ: KIND) ("Kindred"), from May 1, 1998 until January 21, 1999 and as President of Kindred from May 1, 1998 until November 1998. Mr. Lunsford is also a director of National City Bank, Kentucky, Inc. and Res-Care. / (1) (5) /

SHELI Z. ROSENBERG (age 60) has been a director of the Company since January 26, 2001. Ms. Rosenberg has been Vice Chairman of Equity Group Investments, LLC ("EGI LLC"), an investment company, since January 1, 2000 and Chief Executive Officer and President of EGI LLC from January 1, 1999 to January 1, 2000. From November 1994 until 1999, Ms. Rosenberg served as Chief Executive Officer, president and a director of EGI. Ms. Rosenberg was a principal in the law firm of Rosenberg & Liebenritt, P.C., from 1980 to 1997. Ms. Rosenberg is also a trustee of EQR and Equity Office Properties Trust (NYSE: EOP), an office building real estate investment trust. Ms. Rosenberg is a director of Capital Trust, Inc. a specialized finance company, Manufactured Home Communities, Inc. (NYSE: MHC), a manufactured home community real estate investment trust, CVS Corporation (NYSE: CVS), a drug store chain, Dynegy Inc. (NYSE: DYN), a supplier of electricity and natural gas, Cendant Corporation (NYSE: CD), a provider of travel related, real estate related and direct marketing consumer and business services and iDine Rewards Network, Inc. (formerly known as Transmedia Network, Inc.), a marketer of card based savings plans. / (2) (5) /

The information given in this Proxy Statement concerning the nominees is based upon statements made or confirmed to the Company by or on behalf of such nominees, except to the extent certain information appears in the Company's records. Directors' ages are given as of March 31, 2002.

- (1) Member of the Executive Committee, of which Mr. Lunsford is the Chair.
- (2) Member of the Executive Compensation Committee (the "Compensation Committee"), of which Ms. Rosenberg is the Chair.

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- (3) Member of the Independent Committee, of which Mr. Crocker is the Chair.
- (4) Member of the Audit and Compliance Committee (the "Audit Committee"), of which Mr. Geary is the Chair.
- (5) Member of the Nominating and Governance Committee, of which Ms. Rosenberg is the Chair.

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THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" EACH OF THE NOMINEES. SHARES OF COMMON STOCK OF THE COMPANY COVERED BY PROXIES EXECUTED AND RECEIVED IN THE ACCOMPANYING FORM WILL BE VOTED FOR THE ELECTION AS DIRECTORS OF ALL OF THE NOMINEES, UNLESS OTHERWISE SPECIFIED ON THE PROXY.

The Board of Directors does not contemplate that any of the nominees will be unable to accept election as a director. However, in the event that one or more nominees are unable or unwilling to accept or are unavailable to serve, the persons named in the proxies or their substitutes will have authority, according to their judgment, to vote or refrain from voting for other individuals as directors.

CERTAIN INFORMATION CONCERNING THE BOARD OF DIRECTORS

During 2001, the Board of Directors held a total of seven meetings, including five regular meetings and two special meetings. The Company has an Executive Committee, Compensation Committee, Audit Committee, Independent Committee and Nominating and Governance Committee.

The Compensation Committee held two meetings in 2001. The functions of the Compensation Committee are to establish annual salary levels, approve fringe benefits and administer the 2000 Incentive Compensation Plan and other compensation plans or programs for executive officers of the Company.

The Audit Committee held four meetings during 2001. The Audit Committee is comprised of Messrs. Ronald G. Geary (Chair), Jay M. Gellert and Walter F. Beran. The Audit Committee:

- (i) recommends to the Board the selection of the Company's independent accountants for the ensuing year, subject to stockholder approval;
- (ii) reviews with the independent accountants the scope and results of the audit;
- (iii) reviews management's evaluation of the Company's system of internal controls; and
- (iv) reviews non-audit professional services provided by the independent accountants and the range of audit and non-audit fees.

The Executive Committee held one meeting during 2001. The Board of Directors has delegated to the Executive Committee the power to direct the management of the business and affairs of the Company in the intervals between meetings of the Board (except for matters reserved to the Board and the Independent Committee).

The Independent Committee held one meeting during 2001. The function of the Independent Committee is to (a) review and approve all agreements and transactions between the Company and Kindred to ensure that such agreements and transactions represent arm's length negotiations, including without limitation, the negotiation, enforcement and renegotiation of the terms of any leases between the Company and Kindred and (b) review all interested and related party transactions involving a director or officer of the Company.

The Nominating and Governance Committee held one meeting during 2001. The function of the Nominating and Governance Committee is to (a) recommend candidates to fill Board vacancies and a slate of directors for election by the stockholders of the Company at each Annual Meeting, (b) make recommendations to the Board concerning the composition, size and structure of the Board and its committees and (c) make recommendations

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on all matters concerning the Board's practices and corporate practices, procedures and policies. The Nominating and Governance Committee will consider individuals recommended for nomination by the stockholders of the Company in accordance with the procedures described under "Stockholder Proposals."

EXECUTIVE OFFICERS OF THE REGISTRANT

Set forth below are the names, ages (as of March 31, 2002) and present and past positions of the persons who are the current executive officers of the Company.

| Name | Age | Position |
|------------------------|-----|--|
| ---- | --- | ----- |
| W. Bruce Lunsford..... | 54 | Chairman of the Board |
| Debra A. Cafaro..... | 44 | Chief Executive Officer, President and Director |
| T. Richard Riney..... | 44 | Executive Vice President, General Counsel and Corporate Secretary |
| John C. Thompson..... | 34 | Executive Vice President and Chief Investment Officer |

Mr. Lunsford's and Ms. Cafaro's biographies are set forth above under "Election of Directors."

T. Richard Riney has served as Executive Vice President, General Counsel and Secretary of the Company from May 1998 to the present. He served as Transactions Counsel of Vencor, Inc. from April 1996 to April 1998. From May 1992 to March 1996, Mr. Riney was a partner of Hirn, Reed & Harper, a law firm based in Louisville, Kentucky, where his areas of concentration were real estate and corporate finance. Mr. Riney is a member of NAREIT.

John C. Thompson has served as Executive Vice President and Chief Investment Officer of the Company since January 1, 2002. Mr. Thompson served as Vice President, Corporate Development of the Company from January 1999 to December 31, 2001. He served as Director of Acquisitions from May 1998 to January 1999. Mr. Thompson served as Director of Development of Vencor, Inc. from April 1996 to May 1998 and as Development Manager from 1993 to April 1996. Mr. Thompson is a member of NAREIT.

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SECURITY OWNERSHIP OF PRINCIPAL STOCKHOLDERS, DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth certain information with respect to the beneficial ownership of the Company's Common Stock as of March 30, 2002 (except as otherwise noted) by (a) each person known to the Company to be the beneficial owner of more than five percent of the outstanding Common Stock, (b) each director or director-nominee of the Company, (c) all executive officers of the Company listed in the Summary Compensation Table below (the "Named Executive Officers") and (d) all of the Company's directors and executive officers, as a group.

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| Name of Beneficial Owner ----- | Common Stock Beneficially Owned (1) (2) ----- | Percent of Class ----- |
|--|--|------------------------------|
| Walter F. Beran..... | 168,959 (3) | * |
| Debra A. Cafaro..... | 1,543,753 (4) | 2.24% |
| Douglas Crocker, II..... | 252,391 (5) | * |
| Ronald G. Geary..... | 158,175 (6) | * |
| Jay M. Gellert..... | 9,216 (7) | * |
| Gary W. Loveman..... | 7,500 (8) | * |
| W. Bruce Lunsford..... | 2,804,906 (9) | 4.06% |
| T. Richard Riney..... | 540,177 (10) | * |
| Sheli Z. Rosenberg..... | 31,807 (11) | * |
| John C. Thompson..... | 331,435 (12) | * |
| ----- | | |
| All executive officers and directors as a group (10 persons) | 5,848,319 | 8.47% |
| ----- | | |
| Cohen & Steers Capital Management, Inc..... | 5,520,915 (13) | 8.02% |
| Cramer Rosenthal McGlynn, LLC..... | 5,391,200 (14) | 7.826% |
| Franklin Mutual Advisors, LLC..... | 4,929,990 (15) | 7.2% |
| Tenet Healthcare Corporation..... | 8,301,067 (16) | 12.1% |

(*) Less than 1%

- (1) Beneficial Ownership of shares for purposes of this Proxy Statement, as determined in accordance with applicable Securities and Exchange Commission ("Commission") rules, includes shares as to which a person has or shares voting power and/or investment power. Each named person is deemed to be the beneficial owner of securities which may be acquired within sixty days of March 30, 2002 through the exercise of options, warrants or rights, if any, and such securities are deemed to be outstanding for the purpose of computing the percentage of the class beneficially owned by such person; however, any such shares are not deemed to be outstanding for the purpose of computing the percentage of the class beneficially owned by any other person.
- (2) Except as set forth in the accompanying footnotes, the named persons have sole voting power and sole investment power over the shares beneficially owned by them. The number of shares shown does not include the interest of certain persons in shares held by family members in their own right.
- (3) Excludes 1,834 Common Stock share equivalents held by the Company under the Non-Employee Directors Deferred Compensation Plan (the "Directors Plan"), which represents deferred directors' fees that were converted into share equivalents. Includes 25,563 options which are exercisable as of or within 60 days after March 30, 2002.
- (4) Includes 943,005 options which are exercisable as of or within 60 days after March 30, 2002.
- (5) Includes 222,750 options which are exercisable as of or within 60 days after March 30, 2002.
- (6) Includes 124,000 options which are exercisable as of or within 60 days after March 30, 2002.
- (7) Includes 7,500 options which are exercisable as of or within 60 days after March 30, 2002.
- (8) Excludes 1,632 shares held in trust for the benefit of his children. Includes 7,500 options which are exercisable as of or within 60 days after March 30, 2002.
- (9) Excludes 16,365 shares held in trust for the benefit of his children. Includes 1,142,000 options which are exercisable as of or within 60 days after March 30, 2002.

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- (10) Includes 1,300 shares held in Mr. Riney's IRA. Also includes 302,654 options which are exercisable as of or within 60 days after March 30, 2002.
- (11) Includes 12,500 options which are exercisable as of or within 60 days after March 30, 2002.
- (12) Includes 1,044 shares held in Mr. Thompson's IRA and 250 shares held in his spouse's IRA. Includes 185,599 options which are exercisable as of or within 60 days after March 30, 2002.
- (13) As of December 31, 2001, based solely on information contained in a Schedule 13G/A filed by Cohen & Steers Capital Management, Inc. ("Cohen & Steers") on February 13, 2002 with the Commission. Cohen & Steers has sole voting power over 5,272,615 shares and sole dispositive power over 5,520,915 shares. The address of Cohen & Steers is 757 Third Avenue, New York, NY 10017.
- (14) As of December 31, 2001, based solely on information contained in a Schedule 13G filed by Cramer Rosenthal McGlynn, LLC ("Cramer") on February 11, 2002 with the Commission. Cramer has shared voting power and dispositive power with respect to these shares. The address of Cramer is 707 Westchester Avenue, White Plains, NY 10604.
- (15) As of December 31, 2001, based solely on information contained in a Schedule 13G/A filed by Franklin Mutual Advisers, LLC ("FMA") on February 13, 2002 with the Commission. According to the Schedule 13G/A, FMA has sole voting and dispositive power with respect to these shares. The address of FMA is 51 John F. Kennedy Parkway, Short Hills, NJ 07078.
- (16) As of May 1, 1998, based solely on information contained in a Schedule 13D dated May 8, 1998, filed by Tenet Healthcare Corporation ("Tenet"), NME Properties Corp. ("PropCorp"), NME Property Holding Co., Inc. ("PropHold"), and NME Properties, Inc. ("PropInc") with the Commission. PropCorp is a direct subsidiary of Tenet, and PropInc and PropHold are direct subsidiaries of PropCorp. PropInc may be deemed to be the beneficial owner with sole voting and dispositive power of 2,690,880 shares of Common Stock owned by it (the "PropInc Shares"). PropHold may be deemed to be the beneficial owner with sole voting and dispositive power of 5,610,187 shares of Common Stock owned by it (the "PropHold Shares"). Each of PropCorp and Tenet may be deemed to be the indirect beneficial owner with sole voting and dispositive power of the PropInc Shares and PropHold Shares, for an aggregate of 8,301,067 shares of Common Stock. Tenet has issued its 6% exchangeable subordinated notes due 2005 (the "Notes") in January 1996. Each \$1,000 principal amount of Notes is exchangeable into 25.9403 shares of Common Stock and an amount in cash determined according to a formula set forth in the Schedule 13D, which, according to Tenet's 1998 Annual Report on Form 10-K, equals \$239.36, subject to Tenet's right to pay an amount in cash equal to the market price of the Common Stock in lieu of such shares. All of the PropInc Shares and PropHold Shares have been placed in escrow to secure such exchange right. The address of each of Tenet, PropCorp, PropHold and PropInc is 3820 State Street, Santa Barbara, California 93105.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's directors and executive officers and persons who own more than 10% of the Common Stock to file reports of beneficial ownership and changes in such ownership with the Commission. Based solely on a review of the copies of such reports furnished to the Company and on written representations from certain reporting persons that no Form 5 was required for such person, the Company believes that during 2001 all officers, directors and persons who own more than 10% of the Common Stock complied with all applicable Section 16(a) filing requirements, except as described below.

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Mr. Lunsford, an officer and director of the Company, did not report various transactions in his account with the Vencor, Inc. Retirement Savings Plan (the "Plan") occurring without knowledge or authority from Mr. Lunsford after May 1, 1998 in which cash dividends received from the Company were used to purchase additional shares of Common Stock and fees relating to the management of the Plan were paid through the liquidation of shares of Common Stock in his account. The acquisitions and dispositions of the Common Stock by the Plan were directed by the plan administrators and trustees and these transactions were not consummated at the direction or with the knowledge of Mr. Lunsford. As a result of these acquisitions and dispositions by the

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Plan, since May 1, 1998 the total number of shares of the Common Stock increased by a net of 1,576 shares bringing the total shares of Common Stock held by Mr. Lunsford in his account with the Plan to 9,618 on January 16, 2001. Without instruction or knowledge of Ms. Lunsford, all of the shares of the Company's common stock held in the Plan, including those held in Mr. Lunsford's account, were liquidated over a two week period ending May 31, 2001. The proceeds of these sales were pooled and the average sales price were allocated to Plan participants. These transactions were reported by Mr. Lunsford on his Form 5 filed with the Commission for December 31, 2001.

Mr. Thompson, an officer of the Company, did not report beneficial ownership of 34 shares that had accumulated in his account with the Plan prior to April of 2000. The 34 shares were acquired at the direction of the plan administrators and plan trustees. These transactions were not consummated at the direction or with the knowledge of Mr. Thompson. The 34 shares were reported by Mr. Thompson on his Form 4 filed with the Commission for January 2002.

Ms. Mary L. Smith, an officer of the Company, failed to file a Form 3 indicating that Ms. Smith is a reporting person for Section 16 beneficial ownership reporting purposes when she was appointed Principal Accounting Officer and Controller of the Company on July 20, 2000. These shares were reported on a Form 3 filed with the Commission on January 9, 2002.

EXECUTIVE COMPENSATION AND OTHER INFORMATION

The following table sets forth the compensation paid by the Company during each of the Company's last three fiscal years to all individuals serving as Chief Executive Officer during the last completed fiscal year and each of the other four most highly compensated executive officers of the Company who were serving as executive officers at the end of the last completed fiscal year (the "Named Executive Officers"):

Summary Compensation Table 2001

| Name and Principal Position | Year | Annual Compensation | | | Long-Term Compensation(1) | |
|-----------------------------|------|---------------------|---------------|--------------------------------|-----------------------------------|--|
| | | Salary (\$) | Bonus (\$)(2) | Other Annual Compensation (\$) | Restricted Stock Award(s) (\$)(3) | Securities Underlying Options/SARs (#) |
| Debra A. Cafaro..... | 2001 | \$396,846(4) | \$770,000 | \$ 1,996(13) | \$1,120,000 | 346,297 |

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| | | | | | | |
|---|------|-------------|---------|------------|---------|---------|
| Chief Executive Officer and President | 2000 | 353,103(5) | 703,500 | 23,267(13) | 765,000 | 171,095 |
| | 1999 | 287,757(6) | 400,000 | 16,301(13) | 812,500 | 500,000 |
| T. Richard Riney..... | 2001 | 218,646(7) | 313,500 | 183(13) | 532,000 | 131,358 |
| Executive Vice President | 2000 | 197,308(8) | 285,000 | 191(13) | 300,000 | 65,419 |
| General Counsel and Secretary | 1999 | 182,308(9) | 212,500 | 607(13) | 130,625 | 50,000 |
| John C. Thompson..... | 2001 | 153,173(10) | 225,000 | 109(13) | 308,000 | 76,050 |
| Executive Vice President and Chief Investment Officer | 2000 | 125,083(11) | 165,000 | 96(13) | 158,500 | 35,225 |
| | 1999 | 110,481(12) | 93,500 | 346(13) | 97,968 | 25,000 |
| W. Bruce Lunsford..... | 2001 | 150,000 | -- | 41,500(14) | 20,000 | 5,000 |
| Chairman of the Board | 2000 | 150,000 | -- | 31,000(14) | 80,500 | 10,000 |
| | 1999 | 150,000 | -- | -- | 261,250 | -- |

(1) The amounts for 2001 represent the long-term compensation granted to the Named Executive Officers during fiscal year 2001, without regard to the period to which such compensation relates. The amounts for 2000 represent the long-term compensation granted to the Named Executive Officers during fiscal year 2000, without regard to the period to which such compensation relates. The amounts for 1999 represent the long-term compensation granted to the Named Executive Officers during fiscal year 1999, without regard to the period to which such compensation relates.

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- (2) The bonus amounts reflect compensation earned for 1999, 2000 and 2001, respectively, regardless of when paid.
- (3) The amounts shown in the table represent the fair market value on the date of the grant of shares of restricted stock granted by the Company. The shares granted in fiscal years 2001 and 2000 vest in three equal annual installments beginning on the date of the grant. The shares granted in fiscal year 1999 vested in four equal annual installments beginning on the first anniversary of the date of the grant, except for the shares granted to Ms. Cafaro, which vested in eleven equal quarterly installments commencing on April 1, 1999 through October 1, 2001. Based on the closing price of \$11.50 of the Common Stock on December 31, 2001, the aggregate value of all restricted securities held by the Named Executive Officers as of December 31, 2001 is as follows:

| | | |
|--------------|----------------|------------------|
| Ms. Cafaro | \$5,713,993.50 | (496,869 shares) |
| Mr. Riney | \$2,149,131.50 | (186,881 shares) |
| Mr. Thompson | \$1,247,508.50 | (108,479 shares) |
| Mr. Lunsford | \$1,110,164.00 | (96,536 shares) |

Dividends, to the extent declared and paid, will be paid on restricted shares.

- (4) Represents base salary payments of \$385,000 and a payment of \$11,846 for unused vacation days.
- (5) Represents base salary payments of \$351,750 and a payment of \$1,353 for unused vacation days.
- (6) Represents base salary payments of \$274,228 and a payment of \$13,529 for unused vacation days.
- (7) Represents base salary payments of \$209,000 and a payment of \$9,646 for unused vacation days.
- (8) Represents base salary payments of \$190,000 and a payment of \$7,308 for unused vacation days.
- (9) Represents base salary payments of \$175,000 and a payment of \$7,308 for unused vacation days.

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- (10) Represents base salary payments of \$150,000 and a payment of \$3,173 for unused vacation days.
- (11) Represents base salary payments of \$119,583 and a payment of \$5,500 for unused vacation days.
- (12) Represents base salary payments of \$106,250 and a payment of \$4,231 for unused vacation days.
- (13) Represents reimbursement for the payment of taxes on behalf of the executive for the respective fiscal year.
- (14) Represents payment for Board of Director's fees to Mr. Lunsford.
- (15) Represents life insurance premiums paid on behalf of the executive for the respective fiscal year.
- (16) Represents interest forgiveness on Mr. Lunsford's Tax Loan (as defined in "Certain Relationships and Related Transactions") between December 16, 1998 and December 15, 2001.

OPTION GRANTS IN LAST FISCAL YEAR

The following table sets forth information concerning options to purchase shares of Common Stock granted to the Named Executive Officers during 2001:

| Name | Number of Securities Underlying Options Granted | % of Total Options Granted to Employees in 2001 | Date of Grant | Exercise Price Per Share (2) | Expiration Date | Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term (3) | |
|-------------------|---|---|----------------------|------------------------------------|----------------------|--|---------------------------|
| | | | | | | 5% (\$) | 10% (\$) |
| Debra A. Cafaro.. | 296,297 (1) 50,000 (1) | 49.1% 8.3% | 01/22/01 11/16/01 | \$ 6.7500 \$12.0600 | 01/22/11 11/16/11 | \$1,258,880 \$ 379,000 | \$3,187,187 \$ 961,000 |
| T. Richard Riney. | 131,358 (1) | 21.8% | 01/22/01 | \$ 6.7500 | 01/22/11 | \$ 558,272 | \$1,413,412 |
| John C. Thompson. | 76,050 (1) | 12.6% | 01/22/01 | \$ 6.7500 | 01/22/11 | \$ 323,213 | \$ 818,298 |
| W. Bruce Lunsford | 5,000 (4) | 0.8% | 01/01/01 | \$ 5.8750 | 01/01/11 | \$ 18,450 | \$ 46,800 |

(1) Options become exercisable in three equal annual installments (with slight modifications for rounding) beginning on the date of grant. All options become fully exercisable upon a change in control of the Company. Additionally, there is an acceleration of rights to exercise options upon certain instances of termination of employment.

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- (2) All options were granted at fair market value (the closing price on the New York Stock Exchange on the date of grant). The exercise price and any tax withholding obligations related to exercise may be paid by delivery of shares of Common Stock.
- (3) Potential realizable values are reported net of the option exercise price, but before taxes associated with exercise. These amounts are predicated on 5% and 10% assumed annual rates of appreciation from the Common Stock price on the date of the grant for ten years (the option terms) in order to comply with the requirements of the Commission, and do not represent the Company's expectations as to the annual rate of appreciation. Actual gains, if any, on stock option exercises are dependent on the future performance of the Common Stock and overall stock market conditions, as well as the option holder's continued employment with the Company throughout the vesting period. The amounts reflected in this table will not necessarily be achieved.

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- (4) Options were granted in connection with service as member of the Board of Directors and not as an Executive Officer of the Company. Options become exercisable in two equal annual installments beginning on the date of grant.

OPTION EXERCISES AND HOLDINGS

The following table sets forth information with respect to the Named Executive Officers concerning options exercised during 2001:

| Name | Shares Acquired on Exercise(1) | Value Realized(2) | Number of Securities Underlying Unexercised Options at Fiscal Year End | | Value of Unexercised In-the-Money Options at Fiscal Year End(3) | |
|-------------------|--------------------------------|-------------------|--|---------------|---|---------------|
| | | | Exercisable | Unexercisable | Exercisable | Unexercisable |
| W. Bruce Lunsford | 10,000 | \$87,175 | 1,059,500 | 92,500 | \$39,925 | \$22,675 |

-
- (1) All of these options were exercised on December 13, 2001.
- (2) The value realized was calculated by multiplying the number of shares acquired by the difference between the option exercise price (\$3.3125) and the closing price of the Company's Common Stock (\$12.03) on the exercise date, December 13, 2001.
- (3) Assumes, for all unexercised in-the-money options, the difference between fair market value as of December 31, 2001 and the exercise price. The market value of the Common Stock was \$11.50 per share as of December 31, 2001, based on the closing price per share on the NYSE.

The following table sets forth information with respect to the Named Executive Officers concerning options held as of December 31, 2001:

| Name | Number of Securities Underlying Unexercised Options at Fiscal Year End | | Value of Unexercised In-the-Money Options at Fiscal Year End(1) | |
|-------------------|--|---------------|---|---------------|
| | Exercisable | Unexercisable | Exercisable | Unexercisable |
| Debra A. Cafaro.. | 729,497 | 287,895 | \$4,536,444 | \$1,405,356 |
| T. Richard Riney. | 182,732 | 142,545 | \$ 805,109 | \$ 712,373 |
| John C. Thompson. | 114,251 | 80,774 | \$ 434,066 | \$ 396,319 |
| W. Bruce Lunsford | 1,059,500 | 92,500 | \$ 39,925 | \$ 22,675 |

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- (1) Assumes, for all unexercised in-the-money options, the difference between fair market value as of December 31, 2001 and the exercise price. The market value of the Common Stock was \$11.50 per share as of December 31, 2001, based on the closing price per share on the NYSE.

EMPLOYMENT AND OTHER AGREEMENTS

Employment and Severance Agreements: Lunsford, Riney and Thompson

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The Company entered into employment agreements with W. Bruce Lunsford and T. Richard Riney on July 30, 1998. The Company entered into an employment agreement with John C. Thompson on January 13, 1999. These employment agreements are for an initial one year term. The term of each agreement is automatically extended by one additional day for each day following the effective date of the agreement that the Named Executive Officer remains employed by the Company until the Company elects to cease such extension by giving notice to the Named Executive Officer. Upon such notification, the employment agreements will terminate in one year. The employment agreements provide base salary and the ability of the Named Executive Officer to be eligible for bonuses and to participate in the Company's incentive and other employee benefit plans. The Named Executive Officers may receive increases in their base salaries from time to time as approved by the Compensation Committee or the Board of Directors. Under certain circumstances, the employment agreements also provide for severance payments if the executive is terminated. The employment agreements of Mr. Riney and Mr. Thompson were amended on September 30, 1999 to provide for the gross up of any payment or benefits to which they may be entitled under their employment agreements or any other agreement for any tax imposed upon them by Section 4999 of the Code or any similar state or local tax.

If employment is terminated by reason of death or disability, the Named Executive Officer is entitled to a prorated portion of his target bonus. If the Named Executive Officer is terminated for "cause" (as defined in the employment agreements), no additional payments are made under the employment agreements.

If the Named Executive Officer's employment is terminated by the executive for "good reason" (as defined in the employment agreements) or by the Company other than for "cause" (collectively, an "Involuntary Termination"), certain levels of severance payments are provided under the employment agreements. Upon such a termination, the employment agreement for Mr. Lunsford provides for a cash payment equal to the prorated portion of his maximum bonus for the year of termination, if any bonus targets had previously been set, and two times his base salary and maximum bonus for the year of termination, if any bonus targets had previously been set. In addition, Mr. Lunsford would be entitled to coverage under the Company's employee benefit plans for two years, two years of additional vesting of restricted stock awards and two additional years in which to exercise stock options. Upon the Involuntary Termination of either of Mr. Riney or Mr. Thompson, the terminated executive would be entitled to a cash payment equal to the prorated portion of their maximum bonus for the year of termination, if any bonus targets had previously been set, and one times their base salary and maximum bonus for the year of termination, if any bonus targets had previously been set. In addition, the terminated executive would be entitled to coverage under the Company's employee benefit plans for one year, one year of additional vesting of restricted stock awards and one additional year in which to exercise stock options.

The employment agreement for Mr. Lunsford also provides for a restructuring of his Tax Loan (as defined) if he is subject to an Involuntary Termination pursuant to which the Tax Loan would be amended to provide that any payment of the principal will be made in equal annual installments with a final maturity date ten years from the date of the Tax Loan. See "Certain Relationships and Related Transactions" for a description of the Tax Loan. In addition, if Mr. Lunsford resigns as Chairman at the request of the Board for any reason other than cause, all amounts owed under the Tax Loan will be forgiven.

The Company entered into Change in Control Severance Agreements with each of Mr. Lunsford, Mr. Riney and Mr. Thompson. These agreements provide for the payment of severance benefits under certain circumstances. The severance benefits become payable at any time within two years of a change in control of the Company (as defined in the agreements) if: (i) the Company terminates the employee without cause; (ii) the employee terminates employment with the

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Company for "good reason" (as defined in the agreement) or within either of two 30-day periods commencing 30 days after the change in control and one year after the change in control, respectively. The benefits to be afforded to Mr. Lunsford include: (i) a cash payment equal to three times base salary, maximum bonus and performance share award target as of termination of employment; (ii)

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continuation of health, life and disability insurance coverage for three years; (iii) full vesting under the Company's retirement savings plan; and (iv) an additional payment for any excise taxes he may incur as a result of the change in control. The benefits to be afforded to Messrs. Riney and Thompson include: (i) a cash payment equal two times base salary, maximum bonus and performance share award target as of termination of employment; (ii) continuation of health, life and disability insurance coverage for two years; (iii) full vesting under the Company's retirement savings plan; and (iv) an additional payment for any excise taxes they may incur as a result of the change in control.

Employment Agreement: Cafaro

Effective March 5, 1999, the Company and Debra A. Cafaro entered into an employment agreement (the "Cafaro Employment Agreement") pursuant to which Ms. Cafaro became President, Chief Executive Officer and a director of the Company. The initial term of the Cafaro Employment Agreement will expire on December 31, 2002. The Cafaro Employment Agreement provides for (i) an initial annual base salary of \$335,000 (with a minimum annual increase of 5% thereafter), (ii) the eligibility to participate in the Company's bonus program, (iii) a grant of 100,000 restricted shares of Common Stock, and (iv) a grant of options to purchase 500,000 shares of Common Stock. Such options will be "incentive stock options" under the Code ("ISOs") to the maximum extent permissible. The per share exercise price for the ISOs (36,639 options) is \$8.1875, the closing price of the Common Stock on March 5, 1999 (the "Effective Date"). The per share exercise price for the remaining options (463,361 options) is the lesser of \$8.1875 and the closing price of the Common Stock 120 days after the Effective Date (\$5.00). In addition, Ms. Cafaro will receive a loan sufficient to cover income taxes payable on the shares of restricted stock, and she is eligible to participate in the Company's incentive and other benefit plans.

If Ms. Cafaro's employment is terminated (other than "for cause") she will be entitled to receive a cash payment equal to the sum of three times her base salary and the highest bonus in the preceding three years or the maximum bonus for the current year, whichever is higher (the "Maximum Bonus") as of the date of termination, plus the prorated portion of the Maximum Bonus for the year of termination. In addition, Ms. Cafaro will be entitled to full vesting of her shares of restricted stock and stock options and forgiveness of the Cafaro Tax Loans (as defined below).

In the event of a change of control, Ms. Cafaro will be entitled to a cash payment equal to 2.99 times the sum of her base salary and Maximum Bonus on the date of a change of control plus the fair market value of any targeted restricted shares to be issued in the year the change of control occurs. In addition, Ms. Cafaro will be entitled to full vesting of her shares of restricted stock and stock options and forgiveness of the Cafaro Tax Loans.

Pursuant to the Cafaro Employment Agreement, Ms. Cafaro and Mr. Crocker are entitled to jointly designate a person to be appointed to serve as a director, subject to the approval of Mr. Lunsford, which approval shall not be unreasonably withheld (the "Designee"). Ms. Cafaro and Mr. Crocker have not appointed a Designee to date. Once they have done so, the Board will act to

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appoint the Designee as a Director.

COMPENSATION OF DIRECTORS

During 2001, directors not employed by the Company and the Chairman of the Board received \$1,500 for each board meeting they attended, \$1,000 for each committee meeting they attended, \$1,500 for each telephonic meeting in which they participated unless the telephonic meeting was fifteen minutes or less, in which case they received \$750 for such telephonic meeting. In addition, non-employee directors and the Chairman of the Board received a \$7,500 retainer for each calendar quarter that they served as a director.

During 2001, directors not employed by the Company received options pursuant to the Company's 2000 Stock Option Plan for Non-Employee Directors (the "2000 Directors Stock Plan"). Under the 2000 Directors Stock Plan, each non-employee director and the Chairman of the Board was granted an option to purchase 5,000

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shares of Common Stock on January 1 of each year, with an exercise price equal to the fair market value of the Common Stock on the date the option was granted. Accordingly, the Company issued options with respect to an aggregate of 20,000 shares to the three persons who were serving as non-employee directors and the Chairman of the Board on January 1, 2001.

The 2000 Stock Option Plan for Directors also provides for the grant of an option to purchase 10,000 shares of Common Stock upon the initial election or appointment of a director, with an exercise price equal to the fair market value of the Common Stock on the date of grant. Accordingly, the Company issued 10,000 options each to Mr. Rosenberg, Mr. Gellert and Mr. Loveman on January 26, 2001, September 10, 2001 and September 10, 2001, respectively. All options are exercisable in two equal installments, the first on the date of grant and the second on the first anniversary of the date of grant.

REPORT OF THE COMPENSATION COMMITTEE

The functions of the Compensation Committee include reviewing and approving of the Company's executive compensation structure and overall benefits program. The purpose of the executive compensation program is to establish and maintain a performance and achievement oriented environment, which aligns the interests of the Company's executives with the interests of its stockholders. The key components of the Company's compensation philosophy are base salary, an annual incentive award and long-term based incentives.

The Company's overall compensation structure is reviewed annually with the assistance of an expert independent consultant and the use of executive compensation surveys from the following sectors: (a) healthcare REITS; and (b) REITS with comparable total capitalization as the Company, regardless of asset class. The companies surveyed include some, but not all, of the companies covered in the indices included on the Performance Graph.

Types of Compensation:

1. Base Salary

The Compensation Committee sets base salaries for executive officers. Base salary increases are provided to executives based on an evaluation of each executive's performance, the executive's level of responsibility, as well as the performance of the Company as a whole. The Compensation Committee also considers the success of the executive officer in developing and executing the

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Company's strategic plans, exercising leadership and creating stockholder value. In addition, the Compensation Committee evaluates the latest survey information available to confirm appropriate compensation levels. The Compensation Committee reviews individual base salaries at least annually with the assistance of an expert independent consultant.

2. Bonus

The Compensation Committee, upon the advice and recommendations of an expert independent consultant, established a bonus program for 2001 under which the level of bonus to be paid to the executive officers was dependent upon the attainment of certain performance objectives by the Company and by the executive officers. The maximum level performance objectives of the Company and of each of the executive officers were attained for 2001 and annual cash bonuses were awarded to the executives for 2001 ranging from 150% to 200% of base salary.

3. Stock Options and Restricted Stock Awards

The Compensation Committee recognizes that while the bonus program provides rewards for positive short-term and mid-term performance, the interests of stockholders are best served by giving key employees the opportunity to participate in the appreciation of the Common Stock through the grants of stock options and restricted stock awards. The use of such awards provides a long-term link between the results achieved for the

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Company's stockholders and the reward provided to executive officers. Stock options and shares of restricted stock are granted to executive officers primarily based on the officers' actual and potential contribution to the Company's growth, long-term performance and the practices of other REITs. Stock-based compensation also provides an effective incentive for management to create stockholder value over the long-term because the full benefit of the compensation package cannot be realized unless an appreciation in price of the Common Stock occurs over a number of years.

Chief Executive Officer's Compensation

Based upon the executive compensation surveys and the strategic accomplishments of the Company, the Compensation Committee believes that the salary, bonus, restricted share awards and option grants to Ms. Cafaro, the Company's Chief Executive Officer and President since March 5, 1999, are fair and competitive. The Company achieved a number of strategic objectives under Ms. Cafaro's leadership during 2001, including: (a) the emergence of Kindred, the Company's primary tenant, from bankruptcy proceedings following several months of complex and protracted negotiations with Kindred and its major creditors; (b) increased visibility of the Company in the financial community and among healthcare REIT investors; (c) lowering the Company's cost of debt and relieving the Company of certain restrictions under the Company's credit agreement through the refinancing and prepayment of a substantial portion of the indebtedness owed by the Company to its senior lenders; (d) expanding and strengthening the Board of Directors with members who have expertise in the areas of real estate, healthcare and corporate governance; and (e) the achievement of exceptional total stockholder return in 2001. The Compensation Committee determined that compensation for Ms. Cafaro for 2001 was appropriate and desirable in light of her actual and potential contributions to the Company and her leadership in the Kindred reorganization negotiations and the Company's debt restructuring. The assessment of actual and potential contribution was based on the Compensation Committee's subjective evaluation of Ms. Cafaro's

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abilities, skills, efforts and leadership.

Tax Policy

The Omnibus Budget Reconciliation Act of 1993 amended the Code to provide generally that the compensation paid by publicly held corporations to the chief executive officer and the four most highly paid senior executive officers in excess of \$1,000,000 per executive will be deductible by the Company only if paid pursuant to a qualifying performance-based compensation plan approved by stockholders of the Company. Compensation as defined by the Code includes, among other things, base salary, incentive compensation and gains on stock options and restricted stock. It is the Compensation Committee's policy to maximize the effectiveness of the Company's executive compensation plans. In that regard, the Compensation Committee intends to maintain flexibility to take actions that are deemed to be in the best interests of the Company and its stockholders. Such actions may not always result in executive compensation qualifying for the maximum possible tax deductibility under the Code. The Company also believes that substantially all of the compensation paid in 2001 is deductible for federal income tax purposes.

The foregoing report of the Compensation Committee shall not be deemed incorporated by reference by any general statement incorporating by reference this Proxy Statement into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, and shall not otherwise be deemed filed under such acts except to the extent that the Company specifically incorporates this information by reference.

COMPENSATION COMMITTEE

Sheli Z. Rosenberg, Chair
Douglas Crocker, II, Member
Gary W. Loveman, Member

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COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

As of December 31, 2001, the following persons served on the Compensation Committee: Sheli Z. Rosenberg, Douglas Crocker, II and Gary W. Loveman. Until his resignation from the Compensation Committee effective May 15, 2001, Ronald G. Geary served as a member of the Compensation Committee. None of the current members of the Compensation Committee are, or have been, employees of the Company. The Company currently leases various properties to Tangram Rehabilitation Network, Inc. ("Tangram"), a wholly owned subsidiary of Res-Care of which Mr. Geary is Chairman, President and Chief Executive Officer and of which Mr. Lunsford is a director. See "Certain Relationships and Related Transactions--Transactions with Res-Care."

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In May 1998, the Company adopted a policy which provides that any transaction between the Company and any of its officers, directors or their affiliates must be approved by the disinterested members of the Board of Directors and must be on terms no less favorable to the Company than those available from unaffiliated parties.

Tax Loan

In connection with the 1998 Spin Off, the Company agreed to loan Mr. Lunsford (former Chief Executive Officer and present Chairman of the Board of

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Directors) an amount sufficient to cover his estimated income taxes payable as a result of the distribution of Vencor common stock (the "Tax Loan"). The Tax Loan is evidenced by a promissory note which has a term of ten years and bears interest at 5.77%. Principal on the Tax Loan is scheduled to be repaid in ten equal annual installments beginning on June 15, 1999. Interest is payable quarterly; however, any interest payment on the Tax Loan is forgiven if Mr. Lunsford remains employed in his position with the Company on the date on which such interest payment is due. Moreover, in the event of a change in control of the Company, the entire balance of the Tax Loan will be forgiven. The Tax Loan was based on estimated tax payments required to be made by Mr. Lunsford as a result of the distribution of Kindred common stock. The principal amounts of the Tax Loan to Mr. Lunsford was \$3,750,000. In connection with the amendment of his employment agreement at the time of his resignation as President and Chief Executive Officer in December, 1998, the terms of the Tax Loan were amended. The Tax Loan will be restructured if he is subject to an Involuntary Termination, such that any payment of the principal will be made in equal annual installments with a final maturity date ten years from the date of the Tax Loan. In addition, if Mr. Lunsford resigns as Chairman at the request of the Board for any reason other than "cause," all amounts owed under the Tax Loan will be forgiven. As of December 31, 2001 the outstanding principal balance of the Tax Loan was \$2,625,000. See "Employment and Other Agreements."

Transactions with Res-Care

On October 15, 1998, the Company acquired eight personal care facilities and related facilities for approximately \$7.1 million from Tangram. Tangram is a wholly owned subsidiary of Res-Care of which Mr. Geary is Chairman, President and Chief Executive Officer and Mr. Lunsford is a director. See "Compensation Committee Interlocks and Insider Participation." Res-Care acquired Tangram in a cash merger on October 15, 1998. The purchase price for the Tangram facilities was determined by an appraisal conducted by Graham & Associates, Inc., San Marcos, Texas, a certified General Real Estate Appraiser for the State of Texas. The Company leases the Tangram facilities to Tangram pursuant to a Master Lease Agreement which is guaranteed by Res-Care. During 2001, Tangram paid the Company \$779,239 in rent. The Company believes that the terms of the Master Lease Agreement represent market rates.

Office Lease

Effective March 15, 1999, the Company relocated its principal executive offices and entered into a lease agreement with Summit II Partners, Limited (the "Landlord"). On November 29, 2001, the Landlord and the Company amended the lease agreement to add additional office space (as amended, the "Office Lease"). The

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Office Lease requires the Company to pay annual rent of \$110,161 to the Landlord. Mr. Lunsford owns an indirect equity interest in the Landlord of approximately 22%. The Company believes that the terms of the Office Lease represent market rates.

Hospital Sublease

On March 6, 2001, the Company consented to the sublease by Kindred to XodiAx, LLC ("XodiAx") of approximately 8,352 square feet in a data center building located on the hospital campus known as Kindred Hospital Louisville. The Kindred Hospital Louisville campus is owned by the Company and is leased to Kindred pursuant to the terms of a Master Lease between the Company and Kindred. The sublease is subject and subordinate to the terms of the Master

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Lease. Total annual rent under the sublease is \$330,279. Upon the occurrence of certain events, at the Company's option, XodiAx will pay rent under the sublease directly to the Company and/or attorn to the Company under the sublease. Mr. Lunsford is the Chairman of XodiAx and owns an equity interest in XodiAx of approximately 13.5%.

Cafaro Loans

Under the terms of the Cafaro Employment Agreement, the Company made loans in the aggregate principal amount of \$67,250 to Ms. Cafaro in 1999, and \$184,551 to Ms. Cafaro in 2000 and \$593,893 to Ms. Cafaro in 2001 to pay all federal, state, local and other taxes payable upon the vesting of restricted stock awards previously granted to her (the "Cafaro Tax Loans"). The principal amount of all of the Cafaro Tax Loans is payable on March 5, 2009. The Cafaro Tax Loans bear interest at the lowest applicable federal rate. Interest on the Cafaro Tax Loans is payable annually out of and only to the extent of dividends from the vested restricted stock. Ms. Cafaro has paid interest on such Cafaro Tax Loans through December 31, 2001. Each Cafaro Tax Loan is secured by a pledge of all of the restricted shares to which such Cafaro Tax Loan relates, and the Cafaro Tax Loans are otherwise nonrecourse to Ms. Cafaro. The Cafaro Tax Loans are to be forgiven if there is a change of control of the Company, Ms. Cafaro's employment with the Company is terminated by the Company for any reason other than "cause" or by Ms. Cafaro for "good reason" or due to the death or disability of Ms. Cafaro. In the event either a loan or its forgiveness results in taxable income to Ms. Cafaro, the Company is required to pay to Ms. Cafaro an amount sufficient for the payment of all taxes relative to the loan or its forgiveness.

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AUDIT COMMITTEE REPORT TO STOCKHOLDERS

The Audit Committee oversees the Company's financial reporting process on behalf of the Board of Directors. Management has the primary responsibility for the financial statements and the reporting process including the systems of internal controls. In fulfilling its oversight responsibilities, the Audit Committee reviewed the audited financial statements in the Company's Annual Report to Stockholders for the year ended December 31, 2001 with management, including a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments, and the clarity of disclosures in the financial statements.

The Audit Committee reviewed with the independent auditors, who are responsible for expressing an opinion on the conformity of those audited financial statements with generally accepted accounting principles, their judgments as to the quality, not just the acceptability, of the Company's accounting principles and such other matters as are required to be discussed with the Audit Committee under generally accepted auditing standards, including SAS 61 (Statement of Auditing Standards, AU 380--Communication with Audit Committee). The Company's independent auditors also provided to the Audit Committee the written disclosures required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees). In addition, the Audit Committee has discussed with the independent auditors the auditors' independence from management and the Company including the matters in the written disclosures required by the Independence Standards Board. The Audit Committee has also considered the compatibility of non-audit services with the auditors' independence.

The Audit Committee discussed with the independent auditors the overall scope and plans for their audit. The Audit Committee meets with the independent

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auditors, with and without management present, to discuss the results of their examination, their evaluations of the Company's internal controls, and the overall quality of the Company's financial reporting.

The directors who serve on the Audit Committee are all "independent" for purposes of the New York Stock Exchange listing standards. That is, the Board has determined that no member of the Audit Committee has a relationship to the Company that may interfere with such member's independence from the Company and its management. The Board has adopted a written charter setting out the audit related functions the Audit Committee is to perform.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board (and the Board has approved) that the audited financial statements be included in the Annual Report to the stockholders for the year ended December 31, 2001 for filing with the Commission. The Audit Committee and the Board have also recommended, subject to shareholder approval, the selection of the Company's independent auditors.

The foregoing report of the Audit Committee shall not be deemed incorporated by reference by any general statement incorporating by reference this Proxy Statement into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, and shall not otherwise be deemed filed under such Acts except to the extent that the Company specifically incorporates this information by reference.

AUDIT COMMITTEE
 Ronald G. Geary, Chair
 Jay M. Gellert, Member
 Walter F. Beran, Member

April 3, 2002

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PERFORMANCE GRAPH

The following performance graph compares the cumulative total return (including dividends) to the holders of the Common Stock from May 1, 1998, the date on which the Company is deemed to have commenced operations, to December 31, 2001, with the cumulative total returns on the New York Stock Exchange Composite Index (the "NYSE Index"), the NAREIT All REIT Index (the "All REIT Index") and the Healthcare REIT Index. / (1) / The comparison assumes \$100 was invested on May 1, 1998 in the Company's Common Stock and in each of the foregoing indices and assumes reinvestment of dividends. The Company has included the NYSE Index in the performance graph because the Common Stock is listed on the New York Stock Exchange. The Company has included the other indices because it believes they are most representative of the industry in which the Company competes and are therefore particularly relevant to an assessment of the Company's performance. The figures in the table below are rounded to the nearest dollar.

| | May 1, 1998 | December 31, 1998 | December 31, 1999 | December 31, 2000 | December 31, 2001 |
|---------------------|-------------|-------------------|-------------------|-------------------|-------------------|
| The Company..... | \$100 | \$ 70 | \$ 25 | \$ 39 | \$ 88 |
| NYSE Index..... | \$100 | \$102 | \$112 | \$113 | \$101 |
| All REIT Index..... | \$100 | \$ 84 | \$ 79 | \$ 99 | \$115 |

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Healthcare REIT Index /(2)/ \$100 \$ 90 \$ 64 \$ 73 \$110

[LINE GRAPH COMPARING CUMULATIVE TOTAL RETURN
(INCLUDING DIVIDENDS) OF COMMON STOCK WITH THREE INDICES]

- (1) Last year the Company also compared its performance against the Long Term Care Index ("LTC Index") which was based on the total returns for investments (including dividends) in the common stock of the following companies: Beverly Enterprises, Inc., Genesis Health Ventures, Inc., Manor Care, Inc., Integrated Health Services, Inc., Mariner Post Acute Network, Inc., Sun Healthcare Group, and Vencor, Inc. (now Kindred Healthcare, Inc.). The Company has decided not to include the LTC Index this year because the Company believes that the LTC Index no longer provides an appropriate basis for comparison.
- (2) The Healthcare REIT Index is based on the total return for investments (including dividends) in the common stock of the following companies: ElderTrust, Health Care REIT, Inc., Health Care Property Investors, Inc., Healthcare Realty, LTC Properties, Inc., National Health Investors, Inc., Nationwide Health Properties, Inc., National Health Realty, Inc., Omega Healthcare Investors Inc., Senior Housing Properties Trust, and Universal Health Services, Inc. The index is developed by weighting the returns achieved by each company in the index in proportion to each company's share of the market value of the entire group's common equity capitalization.

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PROPOSAL 2:

RATIFICATION OF INDEPENDENT ACCOUNTANTS

Ernst & Young LLP ("Ernst & Young") audited the Company's financial statements for the year ended December 31, 2001 and has been the Company's auditors since May 1998. Fees as charged by Ernst & Young for the year ended December 31, 2001 were as follows:

(i) Audit Fees. The aggregate fees billed for professional services rendered by Ernst & Young for the audit of the Company's annual financial statements for the year ended December 31, 2001 and the reviews of the financial statements included in the Company's Quarterly Reports on Form 10-Q for such fiscal year were \$108,200.

(ii) Financial Information Systems Design and Implementation Fees. Ernst & Young did not render any professional services to the Company relating to (a) directly or indirectly operating, or supervising the operation of, the Company's information system or managing the Company's local area network and (b) designing and implementing hardware or software systems that aggregate data underlying the Company's financial statements or that generate information significant to the Company's financial statements as a whole.

(iii) All Other Fees. All other fees billed for professional services rendered by Ernst & Young for the year ended December 31, 2001 were as follows:

- Accounting Consultations. The aggregate fees billed for professional services rendered by Ernst & Young for the year ended December 31, 2001 for accounting consultations related to special issues and transactions were \$110,770.

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- Tax Consultations. The aggregate fees billed for professional services rendered by Ernst & Young for the year ended December 31, 2001 for tax consultations related to tax compliance matters and special issues and transactions were \$451,000.

The Audit Committee has determined that the provision of the services referenced in (ii) and (iii) above by Ernst & Young does not compromise Ernst & Young's independence and is consistent with its role as the Company's independent auditors.

The Board of Directors, upon recommendation of the Audit Committee, has appointed Ernst & Young as the independent accountants of the Company for fiscal year 2002. Ernst & Young will examine the financial statements of the Company for fiscal year 2002. If the stockholders do not ratify this appointment, the Board will consider other independent accountants. One or more members of Ernst & Young are expected to be present at the Annual Meeting, will have the opportunity to make a statement if they so desire and are expected to be available to respond to appropriate questions.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" RATIFICATION OF THE APPOINTMENT OF ERNST & YOUNG AS INDEPENDENT ACCOUNTANTS. SHARES OF COMMON STOCK COVERED BY PROXIES EXECUTED AND RECEIVED IN THE ACCOMPANYING FORM WILL BE VOTED IN FAVOR OF RATIFICATION, UNLESS OTHERWISE SPECIFIED ON THE PROXY. Ratification of the appointment of Ernst & Young as independent accountants requires the affirmative vote of the holders of the majority of the shares represented at the Annual Meeting, in person or by proxy, and entitled to vote.

STOCKHOLDER PROPOSALS

Any stockholder proposal intended to be presented at the 2003 Annual Meeting of Stockholders must be received by the Corporate Secretary of the Company by December 4, 2002 and meet the requirements of the bylaws in order to be considered for inclusion in the Company's proxy materials for such meeting.

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According to the Company's bylaws, a stockholder proposal, including stockholder recommendations regarding director nominations, must meet certain requirements described in the bylaws and may only be acted upon at an annual meeting of stockholders if the stockholder gives notice to the Company of such proposal in conformity with the requirements of the bylaws (at least 60 but no more than 90 days before such annual meeting); provided, however, that if the Company gives less than 70 days notice or prior public disclosure of the date of the annual meeting, notice by the stockholder must be given to the Company not later than the tenth day following the earlier of the date on which such notice of the meeting was mailed or the date on which such public disclosure was made. The persons appointed as proxies for the 2002 Annual Meeting will have discretionary voting authority with respect to any stockholder proposal, including any director nomination, that is submitted to the Company otherwise than in conformity with such requirements of the Company's bylaws.

OTHER MATTERS

The only matters to be considered at the Annual Meeting or any adjournment thereof, so far as known to the Board of Directors, are those set forth in the Notice of Meeting and routine matters incident to the conduct of the Annual Meeting. However, if any other matters should properly come before the Annual Meeting or any adjournment thereof, the persons named in the accompanying form of proxy, or their substitutes, will have discretionary voting authority with respect to any stockholder proposal that is submitted to the Company otherwise

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than in conformity with the requirements of the Company's bylaws.

ADDITIONAL INFORMATION

Copies of the exhibits to the Company's Annual Report and Form 10-K will be provided to any requesting stockholder, provided that such stockholder agrees to reimburse the Company for reasonable fees related to providing such documents.

By Order of the Board of Directors,
/s/ W. BRUCE LUNSFORD
W. Bruce Lunsford
Chairman of the Board

Louisville, Kentucky
April 3, 2002

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This Proxy will be voted as directed, but if no direction is indicated for a given Proposal, the Proxy will be voted FOR that Proposal.

Please mark your votes as []
indicated in this example

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" PROPOSALS 1 and 2.

1. ELECTION OF DIRECTORS: to elect seven (7) directors to terms expiring at the 2003 Annual Meeting of Stockholders:

| | | |
|---------------------|-----------------|--------------------|
| Debra A. Cafaro | Ronald G. Geary | W. Bruce Lunsford |
| Douglas Crocker, II | Jay M. Gellert | Sheli Z. Rosenberg |
| | Gary W. Loveman | |

[] For all nominees listed (except as marked to the contrary)

[] WITHHOLD AUTHORITY to vote on all nominees listed

(INSTRUCTIONS: TO WITHHOLD AUTHORITY TO VOTE FOR ANY INDIVIDUAL NOMINEE, STRIKE A LINE THROUGH THE NOMINEE'S NAME IN THE LIST ABOVE.) IF THIS PROXY IS EXECUTED BY THE UNDERSIGNED IN SUCH A MANNER SO AS TO NOT WITHHOLD AUTHORITY TO VOTE FOR THE ELECTION OF ANY NOMINEE, IT SHALL BE DEEMED TO GRANT SUCH AUTHORITY.

2. DIRECTORS' PROPOSAL: to ratify the selection of Ernst & Young LLP as the Company's independent auditors for fiscal year 2002:

[] FOR [] AGAINST [] ABSTAIN

PLEASE INDICATE WHETHER YOU WILL ATTEND THE ANNUAL MEETING:

[] I expect to attend the Annual Meeting.

[] I do not expect to attend the Annual Meeting.

PLEASE COMPLETE, DATE AND SIGN THIS PROXY AND RETURN IT PROMPTLY IN THE ENCLOSED ENVELOPE, WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING. IF YOU ATTEND THE MEETING, YOU MAY VOTE IN PERSON IF YOU WISH, EVEN IF YOU HAVE PREVIOUSLY RETURNED YOUR PROXY.

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VENTAS, INC.
PROXY SOLICITED BY THE BOARD OF DIRECTORS FOR THE
ANNUAL MEETING OF STOCKHOLDERS ON
MAY 14, 2002

The undersigned hereby appoints Debra A. Cafaro and John C. Thompson and each of them, proxies with full power of substitution and resubstitution, for and in the name of the undersigned, to vote all shares of common stock of Ventas, Inc. (the "Company"), which the undersigned would be entitled to vote if personally present at the Annual Meeting of Stockholders to be held at 10:00 a.m., local time, on Tuesday, May 14, 2002 at The Olmsted, 3701 Frankfort Avenue, Louisville, Kentucky, and at any adjournment thereof, upon the matters described in the accompanying notice of Annual Meeting of Stockholders and Proxy Statement, receipt of which is hereby acknowledged, and upon any other business that may properly come before the meeting or any adjournment thereof. Said proxies are directed to vote on matters described in the Notice of Annual Meeting and Proxy Statement as follows, and otherwise in their discretion upon such other business as may properly come before the meeting or any adjournment thereof.

Dated: _____, 2002

Please sign exactly as your name or names appear hereon. Where more than one owner is shown above, each should sign. When signing in a fiduciary or representative capacity, please give full title. If this proxy is submitted by a corporation, it should be executed in the full corporate name by a duly authorized officer. If a partnership, please sign in partnership name by authorized person.